

**State Requirements for Public School Finance**

Over the years, Missouri statutes have been very specific in certain areas of school finance. These laws prescribe the duties of the treasurer and secretary of the board of education, establish five funds which must be used in the accounting process, and place certain limits upon the use of revenue and expenditure transactions allowed in these funds. As a result, the utilization of available money is limited and the accounting process is similarly affected.

Chapter 165, RSMo, provides that all school monies must be accounted for within a framework of five funds:

- Teachers Fund
- Incidental Fund
- Free Textbook Fund
- Capital Projects Fund
- Debt Service Fund

The Governmental Accounting Standards Board (GASB) statement of principle on fund accounting systems states, "Governmental accounting systems should be organized and operated on a fund basis." A fund is an independent fiscal and accounting entity with its own assets, liabilities, and fund balance that are segregated to account for all financial transactions of specific activities of a local education agency's (LEA's) operations in accordance with special regulations, restrictions, or limitations. A fund type or account group may include many subfunds that are restricted in use to a specific phase of the activities. When subfunds are used, the revenue, expenditure, and fund balance accounts within the fund type are divided by subfund to provide the separate accountability necessary to comply with the legal requirements of the various subfunds. Effective accounting control of a subfund does not require use of separate bank accounts.

Fund accounting under Missouri statutes and under generally accepted accounting principals (GAAP) does not require school districts to maintain separate bank accounts for each fund. However, *Section 165.011, RSMo*, requires the Debt Service Fund to be maintained in a separate bank account. Other funds' accounting records must be constructed to demonstrate the propriety of segregated fund transactions.

In determining the number of funds appropriate for public school operations, the purposes and legal requirements of the various activities must be considered. GAAP recommends the minimum number of funds be consistent with legal requirements. This is due to the necessity of identifying expenditures with revenues for the various activities.

Through GASB, GAAP recognizes three types of funds: Governmental, Proprietary, and Fiduciary. Within the Governmental Funds are a General Fund, Special Revenue Fund, Capital Projects Fund, Debt Service Fund, and Permanent Funds. In order to comply with GAAP, Missouri statutory funds are incorporated within this structure as follows:

**Governmental Fund Types:**

- General Fund
  - Incidental Fund
  - Free Textbook Fund
- Special Revenue Fund
  - Teachers Fund
- Capital Projects Fund
- Debt Service Fund

**Proprietary Fund Types:**

- School Food Service (potentially)

**Fiduciary Fund Types:**

- Student Activities (potentially)

**Fund Descriptions:**

*The General (Incidental) Fund* is used to account for all financial resources except those required to be accounted for in another fund. This fund accounts for transactions involving local taxes; Foundation Program payments such as Basic Formula, Transportation, Exceptional Pupil Aid, Early Childhood Special Education, Remedial Reading, Gifted, Free and Reduced Lunch/At-Risk, Career Ladder, Educational Screening Entitlement/PAT, and Vocational/At-Risk; along with various other transactions associated with federal projects. *The Free Textbook Fund* is administered as a revenue account and an expenditure object account reported within the General (Incidental) Fund.

*The Special Revenue (Teachers) Fund* is used to account for revenue sources legally restricted to expenditures for the purpose of teachers' salaries and health insurance benefits and tuition payments to other school districts.

*The Capital Projects Fund* is used to account for all facility acquisition, construction, lease purchase principal and interest payments, and other capital outlay expenditures (with the exception of certain expenditures for classroom instructional capital outlay) as specified in Section 165.011, RSMo.

Expenditures for ordinary repairs to school property will not be made from the Capital Projects Fund. Capital expenditures are defined as expenses paid or incurred for the acquisition or repair of assets that will remain useful for more than one year. Examples of these expenditures would be the cost of acquisition, construction, or erection of buildings, remodeling or reconstruction of buildings and the furnishing thereof, and similar property having a useful life substantially beyond the current fiscal year. Expenses in this fund shall be capitalized and Internal Revenue Service guidelines will be used to determine the appropriateness of specific expense items in the Capital Projects Fund.

Examples of expenditures not allowed to be paid from the Capital Projects Fund are the cost of mending leaks, painting, plastering, custodian salaries, maintenance supplies, and employee benefits.

Revenue placed in the Capital Projects Fund shall come from the following sources:

- tax rate set in the Capital Projects Fund
- bond sale proceeds
- net insurance recoupment for a capital loss
- money received from the sale of capital assets including real estate, school houses, other buildings, furniture, and equipment
- categorical transfers defined in Section L, Interfund Transfers
- money received from any other source for buildings, equipment, lease purchase obligations, or other capital purposes

*The Debt Service Fund* is used to account for the resources accumulated for and the payment of long-term debt. Amounts in the Debt Service Fund are generated from the Debt Service Fund tax levy and are used solely to retire bonded debt. While paying agent fees are always a legitimate expense of the Debt Service Fund, other expenses associated with the issuance of bonds are paid from the various funds (depending on whether the bond issue is a new issue or a refunding issue).

The following bond related fees may be paid from either the Capital Projects Fund or the *General (Incidental) Fund* for a new bond issue. For a refunding general obligation bond issue these fees may be paid from the General (Incidental) Fund or from the refunding bond proceeds from the Debt Service Fund per House Bill 1711 (2002):

- bonding attorney costs
- costs of bond sales
- registration fees
- bond printing costs
- other costs associated with issuing the bonds

A *Fiduciary (Student Activities) Fund* represents moneys held by the LEA in a trustee capacity for individual student groups. The school board is responsible for all student activity funds in the district. The primary criterion for determining how these funds should be classified should be “Who determines how the money is spent?” Thus, athletic funds would generally be classified as governmental funds, while funds for clubs and class activities generally would be included in the fiduciary funds. Any student activity funds classified as governmental funds should be budgeted and controlled in the same manner as other governmental funds.

To generate useful and complete management information for use at the local level, the number of subfunds should be limited where possible. The number of subfunds a school district may use is not restricted to the funds specified. School districts may utilize more funds than the minimum outlined above for local accounting requirements or to comply with GAAP. State reporting will typically consolidate these other funds into the General (Incidental) Fund for year end reporting purposes. Examples of these subfunds include The School Food Service Fund and Student Activities Fund. School administrators and other personnel assigned duties pertaining to school finance should become familiar with Chapter 165, RSMo.

The multiple-fund type system should be operated as a centralized system even though the financial transactions are recorded in separate funds. Although the identity of the assets making up each subfund is kept separate and distinct, only one system of books is needed to account for all fund types. It is important to remember that a fund is not synonymous with a bank account.

An area of special concern in a multiple-subfund system is the interfund transactions that necessarily result in such a system. Five important principles should be observed in relation to interfund transactions:

- Interfund transactions should be limited.
- Interfund payables and receivables should not be built up when there is no intent or ability to settle such interfund obligations.
- Interfund transactions between two or more funds must be recorded by a balanced entry to each fund. Since each subfund is a separate set of balanced accounts, a debit to an account of one subfund cannot be balanced by a credit to an account of another subfund. In cases where two funds owe each other money, the receivable and payable within each fund should not be offset without more entries to both subfunds to remove the full amount of the payables and receivables from the statements (see Section L, Interfund Transfers).
- Interfund receivables and payables should not be viewed in the same manner as a receivable due from or to a source external to the LEA. The collection of the receivable from or payment of the payable to another subfund will not improve the overall cash position of the LEA.
- Interfund transactions are limited to those set forth in Section 165.011, RSMo, and DESE administrative policy. They are defined in further detail in Section L, Interfund Transfers. The allowed transfers are:
  - Textbook Fund Balance
  - “Zero” Teachers Fund Balance
  - Debt Service Balance
  - Transportation

- Area Vocational-Technical Schools
- Grant Match
- Energy Conservation Loan
- Food Services
- Student Activities
- GTB/Line 1
- Capital Projects Fund Interest
- Unspent Bond Proceeds
- Safety and Security

## Other Requirements

Chapter 162, RSMo, pertains to school districts in general but specifically deals with:

- duties of the secretary and the treasurer of a board of education
- bonding requirements for the secretary and the treasurer
- reporting requirements for the treasurer and the secretary
- compensation for the treasurer and the secretary
- requirements for providing special educational services.

Chapter 163, RSMo, pertains to eligibility of districts for state funds under the school foundation program, correction of apportionment errors, and certain state aid pertaining to other than elementary and secondary public education, and provides a description of the school foundation program. This is a very important chapter, which has a significant impact upon the fiscal affairs of a school district.

Chapter 164, RSMo, also has a great impact on school finance. Legal limitations of tax levies for operation of educational programs, requirements for voting levies, duties of district personnel concerning bond elections, limitations placed upon districts concerning maximum amount of bonded indebtedness, and various requirements concerning the issuance of revenue bonds, all of which have major implications for the fiscal operations of public schools, are delineated.

## Special Projects Funds

This section does not apply to any particular fund for state reporting purposes but is included to explain how reporting can be provided on project-to-date revenues, expenditures, and fund balances as required for some federal programs. This requirement occurs when the program or project does not fall entirely within a fiscal year.

Each expenditure account (as defined in Section H, Function Code Descriptions, and I, Expenditure Object Code Descriptions) and each revenue account (as defined in Section G, Revenue Object Code Descriptions) has amounts indicating “current year-to-date” and “prior year’s” totals. The “current year-to-date” amounts will be added to the “prior year’s” total at year-end, in effect, making the prior year amounts cumulative. The sum of the “prior year’s” amounts for all individual revenue accounts for a particular program or project is the project’s total revenues-to-date at year-end. Likewise, the sum of all “prior year’s” expenditure amounts is the project-to-date expenditures at year-end.

At fiscal year-end, the prior year’s amounts equal all project-to-date amounts. During the fiscal year, the project-to-date amounts can be manually computed by adding the prior year’s amounts to the current year-to-date figures.

## MISSOURI FINANCIAL ACCOUNTING MANUAL

### Section: B - Requirements

### Subject: State Requirements

Project-ending balances are simply the project-to-date revenues less the project-to-date expenditures. This allows recordkeeping at the local district to be consistent with federal reporting requirements. When these same “special project funds” are reported for state purposes, the fiscal year activity and balances will be reported within the General (Incidental), Special Revenue (Teachers), or Capital Projects Funds.

### Required Deadlines

<b>May 31</b>	<b>Assessed Valuation:</b> Latest date for assessor’s book to be returned to the county governing body (Section 137.245, RSMo).
<b>June 30</b>	<b>School District Budget:</b> Latest date for adoption of school district budget for the ensuing year (Section 67.030, RSMo).
<b>June 30</b>	<b>Core Data Submission of Attendance and Membership Data</b> (June Cycle): Date for reporting all necessary student data for calculating the amounts of state aid that each district is to receive for the following school year (Section 163.081, RSMo).
<b>July 1</b>	<b>Assessed Valuation:</b> Latest date for county clerks to certify assessed valuation to school districts (Section 137.245, RSMo).
<b>July 15</b>	<b>Annual Secretary of the Board Report (ASBR):</b> Due date for the ASBR in order for a district expecting to be designated financially stressed to be able to forego the Proposition C rollback. This applies to districts whose combined ending fund balance in the General (Incidental) and Special Revenue (Teachers) Funds at the close of the fiscal year is less than one percent (1%) of the combined expenditures in the two funds for that fiscal year and who expects to be identified as financially stressed by the Department of Elementary and Secondary Education (Section 161.527, RSMo).
<b>At Least 7 Days Prior to Hearing</b>	<b>Tax Rate Hearing:</b> Latest date for publishing or posting notice of public hearing prior to setting tax rate (Section 67.110, RSMo).
<b>August 15</b>	<b>Annual Secretary of the Board Report (ASBR):</b> Deadline for filing financial report for school district for the preceding fiscal year (Section 162.821, RSMo).
<b>August 15</b>	<b>Core Data Submission</b> (August Cycle): Deadline for filing final summer school attendance and membership, estimate of Eligible Pupils (EP) for current fiscal year if desire payment on estimating basis, and district tax data on tax rate ceiling, debt service ceiling, unadjusted tax levy, adjusted tax levy, and assessed valuation for inclusion in state calculations.
<b>September 1</b>	<b>Tax Levy:</b> Statutory deadline for filing <b>Estimate of Required Local Taxes</b> with county clerk(s) (Section 67.110, RSMo.). (Authority for county clerk(s) to extend taxes on tax books, Section 164.011, RSMo)
<b>September 1</b>	<b>Summary Annual (Financial) Report:</b> Deadline (in any year in which the district does not cause an audit to be performed by October 31) for publishing a statement in the newspaper of all receipts by source and expenditures by account, indebtedness, and rate of taxation by fund for the previous year if an audit is not performed by October 31 (Section 165.111, RSMo).

## MISSOURI FINANCIAL ACCOUNTING MANUAL

Section: B - Requirements

Subject: State Requirements

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**October 31**

**Audit:** Deadline for filing required biennial audit in odd-numbered years (Section 165.121, RSMo). Sixty day extension available upon written request sent to the Director of School Finance.

**Within 30 Days of  
Receipt of Audit Report**

**Audit Summary:** Deadline for publishing the required summary report reflecting fund balances, receipts, and disbursements by major classifications of each and all funds, summary statement of the scope of audit examination, and auditor's opinion on the financial statements included in the audit report (Section 165.121, RSMo).